Effects of Civil Society Organizations’ Capacity-Building Factors on Their Governance

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This article investigates the differential impact of six civil society organizations’ (CSO) capacity-building factors on governance, using data from a survey of 366 Nepali non-governmental organizations. The factors include Organizational Commitment to Need-based Intervention, Institutionalized Learning Process, Creative Engagement of Staff in Decision-Making, Financial Management, Legal Enabling Environment, and Education of Leaders. Results from Multiple Regression in SPSS 16 show that all six capacity-building factors, both collectively and individually, significantly and positively influence CSO governance with large effect sizes. Notably, Organizational Commitment to Need-based Intervention, Institutionalized Learning Process, Creative Engagement of Staff in Decision-Making, and Financial Management explain 68% of the variance, while Legal Enabling Environment and Education of Leaders explain 19%. Financial management (38.3%) and creative engagement of staff in decision-making (26%) stand out as significant contributors, suggesting a need for targeted capacity-building efforts in these areas to enhance CSO governance. The study provides valuable insights for Confirmatory Factor Analysis and future longitudinal studies on the role of these factors in CSO governance.

Keywords: capacity-building, civil society organizations, enabling environment, governance, Nepal

INTRODUCTION

The positive correlation between civil society organizations’ (CSOs) capacity and their effectiveness (Cooper et al., 2017) encouraged various stakeholders to consider capacity-building a common approach and invest in it (Meehan, 2021). Due to its beneficial effects on organizational effectiveness, development assistance has been linked to CSO governance (Abdalkrim, 2019; Mason & Kim, 2020; Piscitelli & Geobey, 2020). Some research (Bruni-Bossio et al., 2016; Weis III, 2021) found that effective board governance contributes to CSO performance (Gazley & Nicholson-Crotty, 2018; Zhu, Wang, & Bart, 2016). Since CSOs’ effectiveness is subject to their governance (Mitchell & Berlan, 2018) and trust (Alejandro, 2021; Felix et al., 2017), investing in CSO capacity-building is emphasized (Faulk & Stewart, 2017).

CSOs now experience challenges on both fronts: globally, they see the restrictive legal framework (Moore, 2006) for alleged poor governance and the resource constraints for capacity building. Since stakeholders demand rapid results from capacity-building, CSOs are compelled to devote all their resources to mission-driven activities even while financing has recently decreased (Hersberger-Langloh & Stühlinger,
There is constant pressure for CSOs to remain effective and efficient (Carvalho et al., 2016; Walters, 2020), and CSO leaders can achieve it by fulfilling capacity deficits (Williams, 2022).

Hence, understanding how different CSOs’ capacity-building factors affect their effectiveness and governance (Azuaje, 2021) is an important consideration for CSO leaders. However, what factors drive success at CSOs and their governance are contested among scholars (Hersberger-Langloh & Stühlinger, 2021; Piscitelli & Geobey, 2020), and lack of understanding of the differential contributions of capacity-building factors to CSO performance (Andersson et al., 2016) has hindered them from learning to adapt, change, and bring innovations in CSOs (AbouAssi et al., 2019). For CSOs, thus, gaining a deeper understanding of the capacity-building drivers is crucial (Hersberger-Langloh & Stühlinger, 2021) to bring effectiveness in resource mobilization (Williams, 2022) and mission achievement (Bryan, 2019).

The CSO landscape in Nepal includes but is not limited to, social and cultural institutions, relief and development associations, advocacy groups, public trusts, private philanthropic associations, and professional organizations that operate under a diffused mandate. A large number of them work as informal organizations without registration. Some CSOs (Nepal Press Institute, Nepal Bar Association, NGO Federation of Nepal) are registered under the National Directorate Act, and the sectoral legal framework regulates some CSOs. The vast majority of CSOs are nevertheless governed by the Association Registration Act of 1977, a general legal framework that necessitates registering all CSOs in Nepal to engage in lawful activities. Since the Act considers all registered entities as NGOs irrespective of the differences in the nature and scope of their work, all CSOs in Nepal are legally NGOs.

In addition, despite a broader understanding that capacity is subject to external and internal factors and existing research on Nepali civil society organizations has little empirical evidence on the relationship between contextual factors and CSO governance (Pokhrel, 2017; Roka, 2012), this study aims to identify which capacity-building factor best describe the CSO governance in Nepal. This article highlights the literature on CSO capacity-building factors and governance in the global and Nepali contexts. The methods of the study follow it before presenting the results, conclusions, and implications.

**Governance of CSOs Is a Growing Concern**

With a growing understanding that better governance drive CSO’s success (Abdalkrim, 2019; Hamm, 2020; Jaskyte, 2017; Mitchell & Berlan, 2018; Piscitelli & Geobey, 2020; Zhu et al., 2016; Brown, 2005; Cumberland et al., 2015; Gazley & Nicholson-Crotty, 2018; Smith & Phillips, 2016), demand of democratic governance from CSOs is on rise (Glasius, Howell, Ishkanian, Obadare, & Seeckinlgin, 2008). While various stakeholders invested in the organizational capacity of CSOs (Cornforth & Mordaunt, 2011; Meehan, 2021) to make them effective, CSOs frequently come under pressure to spend their valuable and scarce resources on program-related activities rather than developing their competence (Hersberger-Langloh & Stühlinger, 2021). To enhance the effectiveness, most of the capacity-building support has gone toward one or more of the following five areas: organizational development, program development, revenue development, leadership development, and community engagement (Meehan, 2021). However, in the absence of empirical evidence of which factor contributes more than others, there is a chance that many CSOs underinvest in strategic capacity-building activities (Svensson et al., 2017).

Since many CSOs in Nepal are homogenized, growing concerns with CSO governance are prominent. With boundaries spanning (Billis, 2010) CSOs are compelled to blend organizational modes (Donnelly-Cox, 2015). At the very least, CSO governing boards’ “boundary-spanning” responsibilities become more crucial with time, changing the nature of CSOs’ internal governance (Eynaud et al., 2015). Organizations co-exist with external stakeholders in a given ecological context (Hillman & Dalziel, 2003; Hillman et al., 2009), often beyond the organization’s control, and receive indirect advantages and organizational legitimacy (Hadjiievska, 2018). The legal framework in Nepal is responsible for homogeneity among CSOs (Ramanath, 2009; Stühlinger et al., 2020). Irrespective of their work nature, the umbrella Act, known as the Association Registration Act -1977, counts all CSOs working in Nepal as NGOs. This is a form of coercive isomorphism experienced by CSOs in Nepal since organizations that operate in the same institutional setting are homogeneous (Anheier, 2005).
Factors of CSO Governance and Capacity-Building

Dimensions of CSO governance vary. Subedi (2021) highlighted the six CSO governance metrics in his study: BoardSize, BoardIndep, BoardReview, BoardAuditCom, AuditIndep, and WrittenPolicy. Though CSOs progressively implement business strategies and techniques (Maier et al., 2016), Eynaud et al. (2015) argue that corporate governance has always been a challenging match for CSOs. The extant literature highlights some factors of CSO capacity-building and governance.

External Environment

Since CSO governance is external environment sensitive (Mason & Kim, 2020), their operating environment is increasingly challenging (Lu et al., 2020; Almeida et al., 2021). CSO leaders’ capacity to understand the rapid change in the external environment (Azuaje, 2021) determines how organizations interact with external stakeholders and boards to improve performance through appropriate responses to external pressures, including regulatory agencies, competition, networks, and resources (Brown et al., 2016; Haber & Schryver, 2019).

Staff Engagement

Staff engagement is a psychological and behavioral outcome (Gangwani & Sharma, 2017), and it affects decision-making, performance, and the compensation system in a substantial way (Asad et al., 2011). Managers’ decisions depend on the manager’s knowledge, experience, and the possibility of understanding the process and objective factors (Khakheli & Morchiladze, 2015). Since decision-making involves critical thinking skills in optimizing a decision, it allows for opportunities to address immediate concerns and problems (Balloun et al., 2005) that require encouragement and stimulation to use creative thinking skills and capabilities. Despite the low pay, CSO staff exhibit more dedication to the organization and job happiness (Blevins et al., 2020), which impacts NGO governance variables (Mitchell & Schmitz, 2018).

Learning Organization

Organizational learning manifests a CSO’s capacity to influence behaviors (Umar & Hassan, 2019). It enables CSOs to strengthen internal governance and enhance overall performance (Mason & Kim, 2020), further improving their capacity (Williams, 2022). An organization can promote accountability by adapting learning when regular critical reflection and analysis opportunities are created (Edmondson et al., 2008). Adaptive learning focuses more on internal reflection than external (Ebrahim, 2016). When correctly practiced, collaborative learning becomes the norm (Balloun et al., 2005).

Sound Monitoring and Evaluation System

As a backbone of a learning organization, monitoring and evaluation systems help organizations to gauge organizational success (Cestari et al., 2019; Alejandro, 2021). Measuring and demonstrating success helps CSOs increase their funding base (Ma & Konrath, 2018), strengthen organizational cohesion, and create a positive public perception (Lannon, 2019; Alejandro, 2021). Having been developed, functional monitoring and evaluation (M&E) help improve CSO performance (Munik et al., 2021).

Ethical Financial Management

Ethical behavior is believed to be embodied in CSO’s core operational life (Pokhrel, 2017). CSOs with more robust governance have higher financial reporting quality that helps various stakeholders, including donors and regulators, make their decisions (Yetman & Yetman, 2012). Four of the CSO governance dimensions identified by Subedi (2021) are directly related to ethical financial management, such as BoardReview (the extent to which the board reviews its audited report before submitting it), BoardAuditCom (if the NPO has an audit committee), AuditIndep (if independent auditor audits NPO’s financial statements), and WrittenPolicy (policies for protecting whistleblowers, handling conflicts of interest, and keeping records).
Transparency in Organization

Transparency is one of the critical factors of organizational governance. Integrity and transparency are required by the CSO sector’s nature, subject, and goal (Azuaje, 2021) since transparency advances accountability (Cornforth et al., 2017) and strengthens governance. Transparent organizations gain more future contributions and add value to financial growth (Harris & Neely, 2021). Organizations can increase their openness by emphasizing ethics and accountability (Ito & Slatten, 2020). Similarly, an organization’s culture of commitment develops due to increased accountability brought about by a culture of integrity (Williams, 2022).

Fund Raising

Financial dependence significantly impacts CSO behavior (Eger et al., 2015). CSOs are pressured to increase their focus on impact (Arvidsson & Lyon, 2014; Polonsky & Grau, 2011; von Schnurbein, 2016). Thus, boards of directors in CSOs have an essential role in ensuring that organizations focus on the intended objective while generating funds (Blevins et al., 2020). More funding sources are needed to ensure NGOs’ stability (Chang et al., 2018). An organization’s capacity is vital since it enables CSOs to secure needed funding and gain public and donor trust (Gupta et al., 2021).

Leadership Skills

Depending on how CSO leaders use administrative systems and procedures in their operations (Tran, 2020), their traits can directly impact the firm’s effectiveness (Bryan, 2019). Moreover, their principles, ethics, and leadership style influence their performance and those they lead (Weber et al., 2018). A leader’s effectiveness strategically affects creativity and well-organized management (Azuaje, 2021; More et al., 2017). The CSO sector is vulnerable and prone to the negative impact of unexpected external challenges (Maher et al., 2007). Hence, the CSO leader has a critical role in developing the capacity of staff members and the board.

Leader’s Education

Leaders must understand the organizational system thoroughly yet refrain from day-to-day activities to reflect and gain knowledge (Arbussa et al., 2017; Brooks & Ivory, 2018). Similarly, leaders need to be aware of financial management to avoid the dissolution of CSOs (Lu et al., 2020; Lu et al., 2021; Ortiz, 2022). Given the chance of long-serving executive directors exploiting information asymmetries in their organizations (Tillotson & Tropman, 2014), the board of directors’ ability to process all provided information is essential. Though the extant literature brings the knowledge and learning of CSO leaders to discourse, there is a gap in explicit discussion on how CSO leaders’ education credentials influence CSO governance and effectiveness.

Literature on Nepali CSOs’ capacity building and governance is yet limited and underexplored. CSOs, including indigenous voluntary organizations, existed in Nepal even before the country’s written history (Maskey, 1998) and were mainly based on highly intense familial, kinship-related, community-based, and other primary-group relationships (Mishra, 2001). However, though the ethical behavior of CSO leaders is considered a significant determinant of success (Pokhrel, 2017), studies about Nepali CSOs, have not addressed the issues of capacity-building factors affecting governance among Nepali CSOs. With this consideration, this study aimed to see how capacity-building factors affect Nepali CSOs’ governance.

STUDY METHOD

This study used a cross-sectional survey method. The Delphi method helped identify, select, and validate factors (Baumfield et al., 2012) in a particular context, which promoted group discussion to agree on the expert panel’s ideas and opinions (Hasson et al., 2011). As an iterative process with experts gathering or confirming ideas refined later using controlled feedback, the Delphi method allowed the experts to adjust their responses until a reliable consensus was reached (Powell, 2003). So, Delphi was considered essential in this study because the factors of CSO capacity and governance are sometimes found contradictory. Those
factors needed customization while studying CSOs in Nepal since the profit-making sectors highly influence them.

We completed the Delphi method in three phases (Beech, 1999), i.e., preparation, facilitation, and instrument construction. After a literature review and consultation with subject experts, we formed a panel (Bobeva & Day, 2005) of 10 Delphi experts with long experience working with CSOs. The preparation of interview guidelines followed it. While facilitating the Delphi process, in-depth interviews with ten experts generated ideas (Reynolds et al., 2008) that helped develop three major dimensions: i) civil society capacity building (56 statements and 13 themes), ii) CSO governance (51 statements, 17 themes), and iii) enabling environment (36 statements, seven themes). A six-point Likert scale from “Strongly Disagree” to “Strongly Agree” was applied to the 143 statements under the 37 themes. By the end of this round, after eliminating certain statements with a group consensus score under 70%, the survey instrument had 80 statements under the study’s three dimensions (CSO capacity-building, enabling environment, and CSO governance).

**Survey Among Nepali CSOs and Data Analysis**

We surveyed 366 randomly selected non-government organizations registered under the Association Registration Act –1977, an umbrella Act regulating CSOs in Nepal, and associated with the NGO Federation of Nepal. We emailed a self-report questionnaire to organizations in all seven provinces of the country and constantly followed up. Senior staff members of CSOs, including responsible leaders (executive committee leads) and senior management staff (coordinators, executive directors, chairperson), responded to the survey.

While the Principal Component Analysis helped explore CSO capacity-building factors, the Regression Analysis and Analysis of Variance (ANOVA) helped understand which capacity-building factors best describe CSO governance. We performed safety checks before conducting EFA issues (Cohen et al., 2018). The sample size (366) was good for EFA (Comrey & Lee, 1992). This research, with 366 responses and 80 variables, and a ratio of 4.6 variables per sample, met the recommended criteria of a 3 to 6 sample size for each variable (Cattell, 1978). The study contained no missing values (Field, 2017) and no outliers (Cohen et al., 2018). Similarly, the mean being four times greater than the standard deviation also met the normality criteria (Hozo et al., 2005). The variables in this study were found to have inter-variable correlations lower than 0.3 (Floyd & Widaman, 1995). Kaiser-Mayer-Olkin (KMO) test value of 0.965 for capacity building and 0.929 for the enabling environment (Kaiser, 1974) ensured sample adequacy. Kaiser’s Eigenvalue of greater than 1 criterion was also applied. Communities with average extraction across all items scoring over the cutoff of 0.5 and factors loading at least three items were retained (Fidell & Tabachnick, 2019).

After satisfying all the criteria of the factor analysis and running EFA on 80 items, substantive interpretation based on the factor loadings (Hair et al., 2014) referring to CSO capacity-building and governance experts and literature produced 61 items loaded on eight factors. Of them, six factors were on CSO capacity-building (four factors on CSO capacity-building dimensions, two factors on enabling environment dimension). Nomenclature was done based on the conceptual underpinning (Reio & Shuck, 2015), which were: (i) organizational commitment to need-based intervention, (ii) institutionalized learning process, (iii) creative engagement of staff in decision-making, (iv) financial management, (v) legal enabling environment, and (vi) education of leadership.

**Collective Effect of Capacity-Building Factors on CSO Governance**

After identifying six factors of CSO capacity-building, the regresional analysis was carried out to see how these factors describe the governance in Nepali CSOs. We used multiple regression to assess the effects of capacity-building factors on CSO governance. In addition, the effect of each capacity-building factor was also assessed using simple linear regression, and the Pearson Correlation test was also run to glimpse the associations among all the variables. The assumption of linearity of data was satisfied by monitoring the mean values of the dependent variable closely surrounding or overlapping with the rise in independent variables in the Probability-Probability (P-P) Plot of Regression Standardized Residual (Cohen et al., 2018; Field, 2017). Similarly, another criterion of homoscedasticity was also checked (Stockemer, 2018). Durbin-Watson test value of 1.973 signified the absence of autocorrelation, another important assumption for
regression analysis (Field, 2017). Similarly, the highest VIF score was just 3.533, indicating an absence of multicollinearity between the exogenous variables.

Multiple regression analysis assessed the collective contribution of four capacity-building factors to the state of CSO governance. As Cohen et al. (2018) suggested, three key measures (see Table 1), i.e., the Adjusted R square (0.678), the ANOVA significance level (.000\(^b\)), and the Beta (\(\beta\)) value, were considered. With an adjusted R square (0.678), four capacity-building factors collectively account for 67.8% of the variance in the dependent variable (state of CSO governance). Adjusted R square’s value (0.678) further indicates that the regression model falls in the ‘strong fit’ category (Muijs, 2004). The significant value above 99 percent (\(p < .01\)) shows that this model accurately predicts the results in the population (Cohen et al., 2018).

**TABLE 1**
MODEL SUMMARY OF MULTIPLE REGRESSION\(^b\)

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>.826(^a)</td>
<td>.682</td>
<td>.678</td>
<td>.53320</td>
<td>1.973</td>
<td>.000(^b)</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), CBF3, CBF1, CBF4, CBF2  
b. Dependent Variable: State of Governance

Similarly, Multiple regression of two enabling environment-related factors (see Table 2) yielded Adjusted R square (0.191), explaining that 19.1 percent of the variance in CSO governance was described by two enabling environment-related factors together. The regression model falls in the ‘modest fit’ category (Muijs, 2004). The significant value (see Table 3) above 99 percent (\(p < .01\)) shows that this model accurately predicts the results in the population (Cohen et al., 2018).

**TABLE 2**  
MODEL SUMMARY OF MULTIPLE REGRESSION\(^b\)

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>.443(^a)</td>
<td>.196</td>
<td>.191</td>
<td>.82791</td>
<td>1.530</td>
<td>.000(^b)</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), LEE, EL  
b. Dependent Variable: State of Governance

**Individual Effect of Capacity-Building Factors on CSO Governance**

The effect of each predictor variable on CSO governance has been assessed using the Linear Regression Model. Table 11 shows six regression models of six capacity-building factors with unstandardized and standardized coefficients and significance levels. Two critical points in the table were considered for analysis: the Beta value (\(\beta\)) under the ‘Unstandardized coefficients’ column and the significance level.
TABLE 3
COEFFICIENTS OF CAPACITY-BUILDING FACTORS ON CSO GOVERNANCE

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>Beta</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>Organizational Commitment to Need-based Intervention</td>
<td>.165</td>
<td>.058</td>
<td>.159</td>
<td>2.824</td>
</tr>
<tr>
<td>Institutionalized Learning Process</td>
<td>.176</td>
<td>.068</td>
<td>.152</td>
<td>2.586</td>
</tr>
<tr>
<td>Creative Engagement of Staff in Decision-Making</td>
<td>.260</td>
<td>.058</td>
<td>.238</td>
<td>4.507</td>
</tr>
<tr>
<td>Financial Management Capacity</td>
<td>.383</td>
<td>.058</td>
<td>.362</td>
<td>6.643</td>
</tr>
<tr>
<td>Legal Enabling Environment</td>
<td>.207</td>
<td>.064</td>
<td>.195</td>
<td>3.234</td>
</tr>
<tr>
<td>Education of Leaders</td>
<td>.338</td>
<td>.068</td>
<td>.300</td>
<td>4.964</td>
</tr>
</tbody>
</table>

a. Dependent Variable: State of Governance

Financial Management Capacity is the highest contributor, with the highest Beta value of 0.383. It means that provided other variables are controlled, the Financial Management Capacity of CSO explains the outcome (CSO governance) by 38.3 points. Similarly, the creative engagement of staff members in decision-making alone explains the CSO governance by 26 points, provided other variables are controlled. Education of Leaders also explains the CSO governance alone by 33.8 points, provided other variables are controlled. Only these three key contributing Capacity-building factors: Financial Management Capacity ($\beta =$ 0.383), Creative Engagement of Staff Members in Decision-Making ($\beta =$ 0.260), and Education of Leaders ($\beta =$ 0.338) were statistically significant at above 99.9 percent ($p < .001$), while the remaining three were insignificant ($p > .05$).

DISCUSSIONS

The study aimed to identify the extent to which capacity-building factors describe Nepali CSO’s governance. Organizational commitment to need-based intervention ensures productive capacity-building of CSO. Organizational readiness and the capacity builders’ ability (Eade, 2007) are essential since a long-term process like capacity-building organizations need long-term commitment and funding (Harden-Davies & Vierros, 2020). Similarly, organizational commitment to implementing the capacity-building plan is as important as developing a robust plan (Bryan, 2019). Organizational learning portrays its capacity (Williams, 2022) to influence group behaviors (Umar & Hassan, 2019). Organizational cultures should be designed to deeply ingrain their vision, mission, and values into the hearts and souls of their people to institutionalize the learning process (Maier & Meyer, 2015). Reflective processes help gain new knowledge, internalize the value of learning, and apply that knowledge. The creative engagement of staff in decision-making is a part of inclusive, participatory, and democratic management that enhances transparency and improves accountability (Ferretti & Steffek, 2009). Employee engagement indicates how attached and dedicated a worker is to the organization (Gangwani & Sharma, 2017). Though the commitment of CSO staff and their job satisfaction is considered high compared to their counterparts in for-profits despite the low pay (Blevins et al., 2020), an effort is needed to engage staff members in democratic decision-making is vital to maximizing their performance (Hadjiievksa, 2018). Financial management is a critical CSO capacity factor since unethical financial management threatens mission accomplishment (Hargrave, 2022) and puts CSOs at risk losing donor support (Hargrave, 2022; Pokharel, 2017).

By identifying two elements: a legal enabling environment and the education of CSO leaders, this study contributed to the literature demonstrating the significance of an enabling environment for CSOs. Although it has a greater impact on coercive isomorphism, regulatory compliance has less impact on the strategic or operational aspects of CSOs (Hadjiievksa, 2018). The legal system affects how much CSOs adhere to good...
governance principles. CSOs comply with state institutions’ coercive demands (De Corte & Verschuere, 2014) to receive indirect benefits and organizational legitimacy (Hadjievska, 2018).

Two drivers facilitate the contribution of CSO capacity-building to CSO governance. While a good relationship between principals and agents on the need and approaches of CSO capacity-building is essential, the system dictates how the CSOs utilize their capacity in day-to-day governance practices as measured by two factors: the rule of law and informed decision-making (see Fig 1).

CONCLUSIONS AND IMPLICATIONS

In the context of Nepali CSOs, six capacity-building factors contribute to their governance. All six factors, such as organizational commitment to need-based intervention, institutionalized learning process, creative engagement of staff in decision-making, financial management, legal enabling environment, and education of leadership, together explain the state of CSO governance. All factors predicted CSO governance with different power, but Financial Management and Creative Engagement of Staff Members in Decision-Making are two driving forces, followed by Education of Leadership. Hence, to better contribute to CSO governance, capacity-building efforts should focus more on Financial Management and Creative Engagement of Staff Members in Decision-Making, two factors within the direct influence of CSOs, to assess capacity deficits and design the approach and capacity-building intervention to fill them. However, both principals and agents need to have the same understanding of these requirements, particularly the rationale and the ways to creatively engage staff and maintain ethical financial practices in CSOs for effective capacity-building. The existing regulatory environment and legal framework influence the way CSOs are governed, whereas the education of CSO leaders creates that conducive environment internal to an organization. A positive principal-agent relationship is a supporting driver, and the regulatory system controls CSO’s capacity, thus contributing to CSO governance.

This research gained some crucial insights into CSOs’ governance and the role of capacity-building and enabling environment. CSOs can focus more on a sound system for financial management and creative engagement of staff in decision-making, proving the best determinants of CSO governance. It has additional benefits for them. Gaining staff confidence in ethical financial management and making them feel heard and valued helps retain qualified team members who work in CSOs for more psychic gain than financial incentives. Donors also have a crucial role in helping CSOs identify their real-time needs and ensuring the quality of capacity-building efforts. Government can fulfill its accountability through a conducive legal and regulatory environment. Since this study relied on the regression analysis of the factors identified through Exploratory Factor Analysis, longitudinal studies can be conducted, which would help assess the actual contribution of CSO capacity factors to their governance rather than the perceived state of contribution.

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